

# Limited liability companies



Financial planning and management are two basic things that any given firm must undertake in order to become more efficient and relevant in its operations. Whether the organization is a parastatal, a public company, private company or any form of business enterprise, the financial undertakings are very essential because once they are interfered with the firm cannot run adequately. Public enterprises hire very qualified financial managers to lead the financial department so that they may limit cases of misappropriation of funds and ensure transparency in the firm. The Department of finance is the key sector of any enterprise whether it is a trading or non-trading organization; emphasis is laid on the financial wellbeing of the company in order to facilitate running and operating costs. Most company's employees are people who are well trained and experienced in the financial tasks so that they may manage the funds well and ensure the steady flow of activities within that particular company.

Financial planning is the manner in which the available funds are budgeted for in order to cater for the operating and other costs of the firm; this is a key responsibility to any financial department because the management wants to devise ways of using the available funds to run the company or the organization smoothly.

Planning is done so as to achieve the targets of the firm, each firm normally models or builds its activities around its financial position; the firm can only plan to spend the available funds and devise ways of obtaining the other monetary requirements.

Accompany can arrange to raise money by borrowing or offering its shares for public subscription; it can construct a deficit budget where the gap between the available funds and the actual cost of running the organization can be obtained from the financial institutions in the form of both the long term and the short term loans depending on the nature of the transactions involved.

Budgeting is the key aspect of any form of financial planning, the financial department after consulting adequately with other departments must come up with the budget which shows how the firm wishes to raise and spend its finances. In budgeting, priority is given to those aspects or transactions that are perceived to be more beneficial and cost effective; a well structured budget can be used to convince the external funders to help the firm in raising the required amount of financial capital to enhance the success of its activities.

Management revolves around competence and understanding of the financial structures and obligations of a given company or enterprise. Those charged with the responsibility of spearheading the financial sector must be able to report to users of financial records how far they have gone in a particular budgetary or financial year. The finance department is charged with the responsibility of coming up with financial reports, which are very vital for the firm, itself and the other parties concerned.

These financial reports are mostly used by the shareholders who want to know how their investments are fairing on, the government also finds these financial important because it makes its regulatory and taxing decisions

depending on the financial position of the given firm. The general public is also interested in the financial records of particular firms because they want to evaluate which companies to invest their surplus funds into.

The management normally prepares financial reports on quarterly, semiannually or annually basis depending on the rules governing its financial obligations. Key among the documents used to portray this information includes the balance sheets, trading, profit and loss accounts among many others. The firm then uses these statements to come up with the financial statement analysis.

### Financial Statement Analysis

Financial Planning and management revolves around the financial statements; it is very impossible to make either investment or expansion decisions without looking at the financial statements because they provide the best tools for managerial decision analysis. Each decision made in an organization must draw its relevance from the current financial statements because they portray the trend and can be used to determine or forecast the future occurrences.

Financial statements statement analysis involves the analyzation of the financial statement to extract the required information that is used in decision making, the analysis can reveal whether the company will be able to clear the long-term debt obligations. They analyze whether the firm is unstable financially, whether there is efficient allocation and use of the available physical assets, whether the company can be able to maintain its current competitive advantage among many more aspects of concern.

The information being used is most probably that gathered in the previous financial period and is more reliable to give a clear view of the current affairs and how to make the current situation to be even better in the future. The management can ascertain the performance of the firm by paying attention to key ratios and analyzing them; the key issues that shall come up involves the following; how is the company performing relative to the whole industry, here, the management wants to know whether the firm is performing well. They may also want to compare the performance of their firm to other leading companies in the industry, here the idea is to analyze the firm's performance with reference to the best performers to see whether it is bridging the performance gap or not.

Financial analysis is the key role played by the financial managers in the public limited companies, they in most cases perform this role in conjunction with the external group of individuals who may include the auditors and other financial experts that are hired by the firm to oversee the transparency obligations and offer support to the current team of the financial experts employed by the firm. Companies usually employ and hire such experts in order to help in the evaluation of the current performance of the firm, identify a problem or opportunity areas, develop budgets and play a big role of implementing the budgeting strategies for the future.

At times the external groups of individuals comprising of investors, regulators and lenders among others also undertake financial analysis when it so as to help in decision making of whether to extend credit facilities to a particular firm or not among other activities.

## Steps Involved In Financial Analysis

Managers and other financial planners can only achieve their targets by coming up ways of handling their activities after they undergo all the necessary steps required in the financial analysis of their respective firms and companies. Here, are some of the basic steps involved in the financial analysis;

This is the initial step which involves acquiring and gathering a company's financial statements for several years; this information is obtained from the documents like the balance sheets, income statements, shareholders equity statements, cash flow statements and many others. The relevant information is gathered from these sources.

Here the financial department normally scans the statements to look for aspects like large movements in specific items from one year to the following year. The management here is interested in analyzing the movement and flow of the financial activities by looking at the trends in the previous years and trying to relate two consecutive financial periods.

The main activity that takes place at this stage is the reviewing of the notes accompanying the financial statements for additional information that may be crucial in that particular analysis.

This is where the balance sheet is examined; emphasis is laid on the changes in the overall components of the company's liabilities, assets and owners equity. Here, they analyze how the key arrears of the balance sheet change due to changes in any of them over a given period of time.

The management goes a step further to examine the income statement where trends are looked at over a given period of time, the management determines the revenues or sales and the net income or profits that have been obtained over a given period of time. Revenues and income are used to identify whether the firm is growing or not and then devises the correct measures in case of a decline.

This consists mainly of examining the shareholders equity where the management wish to establish whether the firm has issued new shares or not and to determine how the retained earnings account has been performing over the specified period.

This is mainly concerned about the cash flow issues where the firm wants to establish how the cash inflows and outflows have been achieved by the company.

This stage involves the calculation of the financial ratios in any given trading year; the ratios may be the liquidity ratios, leverage or debt ratios, Profitability ratios and efficiency ratios among others.

This involves the data or information from the company's key competitors in order to help it to come with ways of limiting or countering this kind of competition.

Here, the financial managers and planners analyses the stock market where the main emphasis is on the performance of its shares over a given period of time. Decisions are now made to look for ways of handling activities in the stock market.

The management here is charged with the responsibility of reviewing the dividend payout; here, the company wants to establish how the dividend policies support their strategies.

This is the final stage in the financial analysis of the limited liability companies because the management has to assess all the data at its disposal and come up with the relevant policies that can play a part in the prosperity of the company. The financial managers and planners must observe some vital trends in the business undertakings regarding the company as a well performing one, some of those qualities are; liquidity, degree of financial leverage or debt, profitability, value and efficiency.

Liquidity may be said to be the ease with which company's assets can be converted into cash; the liquidity is established by the use of the liquidity ratios which can be computed both in the short run and the long run periods respectively.

Debt analysis is conducted by the use of the leverage or debt ratios, they are analyzed before the firm decides what to do with its finances. Profitability analysis is very vital because the main objective of any firm is to come up with policies to help it to earn profits hence perform well in the market.

Efficiency analysis aims at showing how well the resources of a given company are being managed; this is done by the use of the inventory ratios.

Value ratios are used to portray the embedded value in stocks and are mostly used by the investors as the screening devices which are essential before making investment decisions. It can be clearly observed that financial planning, and management are very complex activities which comprises of

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many procedures and as a result the companies must be able to employ people who are very competent and skilled to handle the most crucial financial department.